
intel

Intel Corporation

Financial Summary

For the five years ended December 31, 1974

	1974	1973	1972	1971	1970
	(Thousands—Except Per Share Amounts)				
Net revenues	**$134,456**	**$ 66,170**	**$ 23,417**	**$ 9,432**	**$ 4,241**
Cost of sales	67,909	35,109	12,425	6,071	2,766
Research and development costs	10,500	4,565	3,442	1,569	1,297
Taxes on income	20,902	9,935	2,084	—	—
Income (loss) before extraordinary item	**19,776**	**9,214**	**1,980**	**(513)**	**(1,451)**
Earnings (loss) per capital and capital equivalent share - before extraordinary items	**$ 2.96**	**$ 1.41**	**$ .31**	**$ (.09)**	**$ (.31)**
Extraordinary Items					
Sale of manufacturing know-how	—	—	—	1,427	481
Income tax benefit of net operating loss carryforward	—	—	1,104	—	—
Net income (loss)	**$ 19,776**	**$ 9,214**	**$ 3,084**	**$ 914**	**$ (970)**
Earnings (loss) per capital and capital equivalent share	**$ 2.96**	**$ 1.41**	**$ .49**	**$ .17**	**$ (.21)**
Capital and Capital Equivalent Shares Used in Per Share Calculations	6,677	6,508	6,248	5,374	4,718

1974 Financial Information By Quarter

(Thousands—except per share amounts)

	March 31	June 30	September 30	December 31
Net revenues	**$32,486**	**$36,223**	**$34,463**	**$31,284**
Cost of sales	13,629	16,220	19,853	18,207
Research and development costs	1,922	2,480	2,777	3,321
Taxes on income	7,154	7,202	3,738	2,808
Net income	**$ 6,603**	**$ 6,701**	**$ 3,475**	**$ 2,997**
Earnings per capital and capital equivalent share	**$ .99**	**$ 1.00**	**$ .53**	**$ .44**

Letter from the President and Chairman of the Board
January 13, 1975

To Our Shareholders:

1974 was a year of continued growth for Intel. Sales climbed to $134 million, more than double the $66 million shipped in the preceding year. Earnings kept pace, increasing to $19.7 million, or $2.96 per share, as compared to $9.2 million, or $1.41 per share, in 1973.

These results alone, however, do not truly reflect the course of the year. Demand for semiconductor memory components, which account for a major portion of our sales, was very strong in the first half, but declined successively in each of the two final quarters, as illustrated in the quarterly summary on the preceding page.

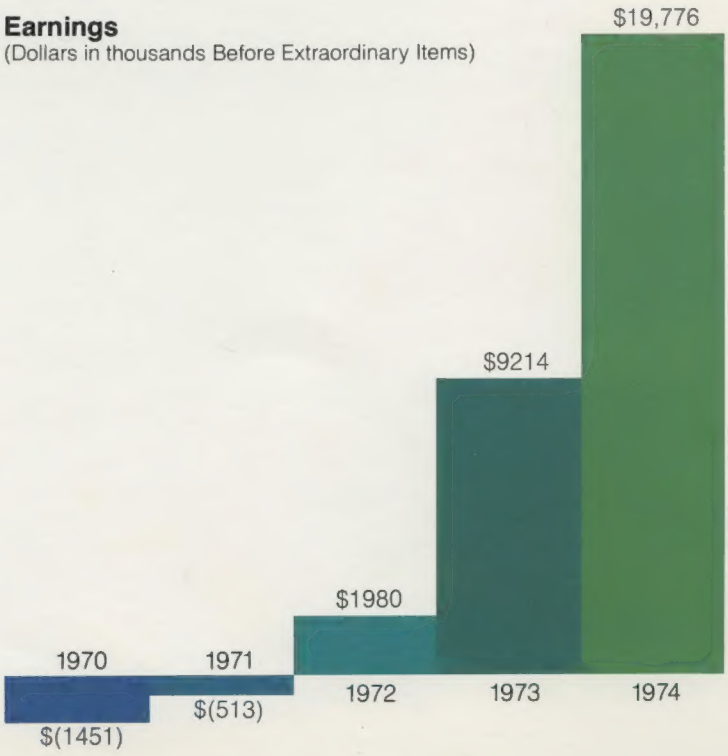
This general pattern has been common to most semiconductor manufacturers, as supply overtook demand and customers tempered their production plans due to the slowing world economy. Another factor was the consumption of high customer inventories accumulated during the latter stages of the shortage environment that prevailed into 1974. The more immediate availability of semiconductor components coupled with high inventory carrying costs further motivated our customers to minimize inventories. This action also was encouraged by the historical trend of component prices to decline over time, as yields improve.

Other segments of our business have to date been relatively unaffected by the general softening of the market, but their growth has been insufficient to offset the drop in the memory components area. As an example, sales of our microcomputer components have continued to increase despite the adverse economic trend as a result of the increasing breadth of our product line and new applications for it. Similarly, our Memory Systems Division also continued to grow throughout the year as penetration increased in both OEM and end-user markets. Both these market segments have very good prospects for 1975. The results of Microma, on the other hand, were disappointing in 1974. However, significant growth is anticipated this year in this new and expanding market segment, which is still in the early phase of displacing mechanical watch movements with electronic modules.

As stated in previous reports to shareholders, profit margins were running at abnormally high levels while demand for all types of components was sharply outpacing supply. Our profit margins in the growth years of 1970 through 1973 showed unusually large increases.

In our industry, however, costs and expenses do not vary directly with sales volume. In 1974, as sales volume leveled off, expenses did not fall proportionately, so profit margins declined. Since demand for the company's products is sensitive to the currently soft economy, we are unable to predict accurately our sales and profits during this period. As a result of the uncertainty of the 1975 economic outlook, we are maintaining a flexible posture in order to react quickly to market fluctuations.

Earnings
(Dollars in thousands Before Extraordinary Items)



It is vital for our company to continue to develop new products to meet future customer requirements even in a soft economic environment. We have continued to expand our total technical effort. New product introductions have recently proceeded at an accelerated pace. For example, three new microprocessor families were announced in 1974. We plan to continue expanding our technical capability at a rate in line with long term sales growth. Last year we hired nearly 100 June college graduates who are proving exceptionally well-qualified and productive.

Our financial strength is particularly important during a period like this. We have no debt of any kind. We own our principal facilities outright with no mortgages. We own essentially all of our production equipment. We have no need for any equity financing in 1975 and any funds needed this year will be well within our borrowing capabilities from the banks.

The company's general management was strengthened last year with the election of Roger S. Borovoy as vice president, general counsel and secretary, and Richard D. Boucher as president of Micromа.

In December, we announced the intent to restructure top management. We have recommended to the Board of Directors that Dr. Gordon E. Moore be elected president and chief executive officer, and Dr. Robert N. Noyce, chairman of the board. Both are founders of the company. Currently Dr. Noyce is president and treasurer and Dr. Moore is executive vice president.

Dr. Noyce will replace Arthur Rock who will become vice chairman and chairman of the executive committee. Dr. Moore's current position will be filled by Dr. Andrew S. Grove, who currently serves as vice president, operations.

We believe these evolutionary changes will strengthen the ability of management to respond to the challenges ahead.

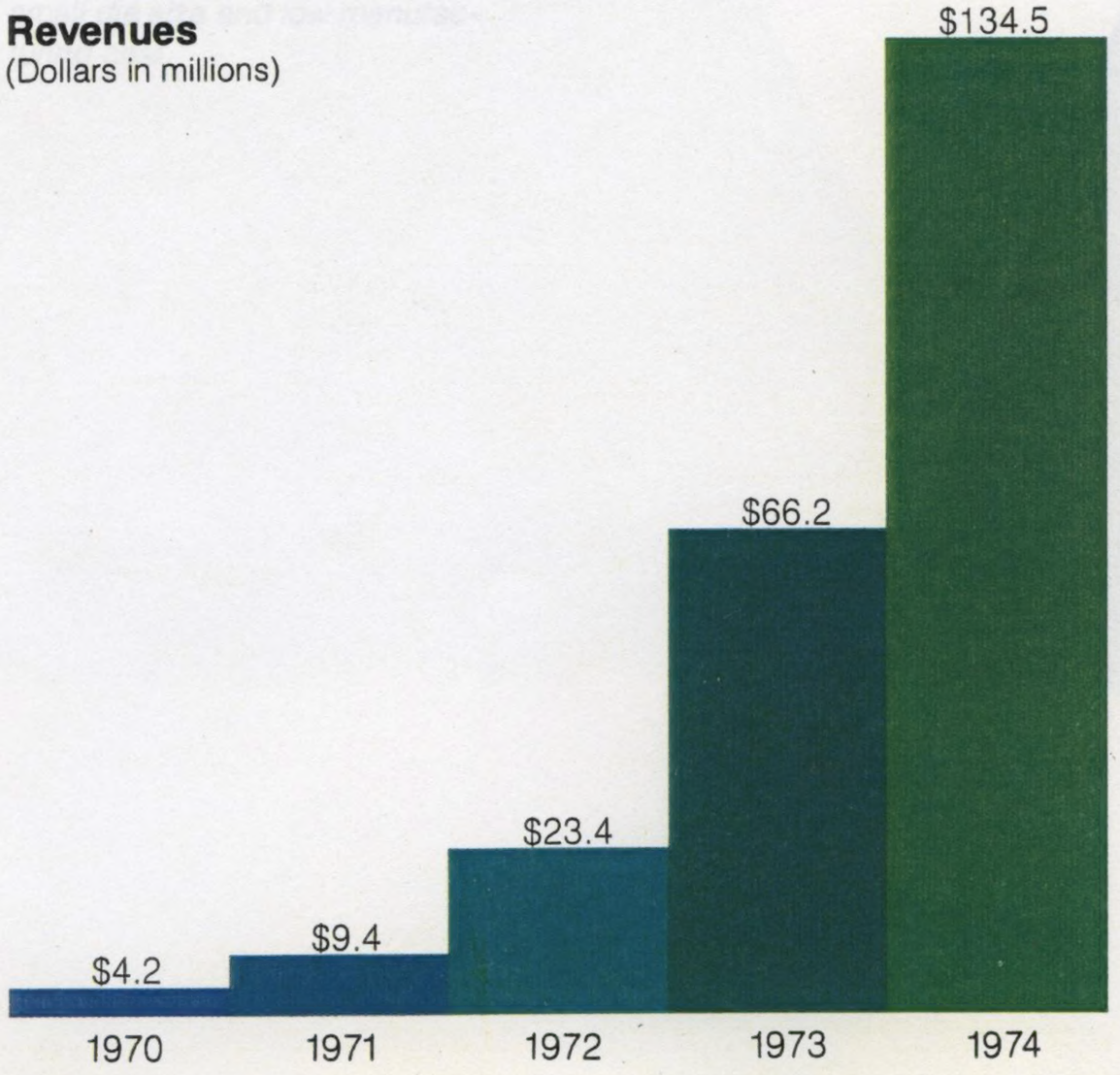
Robert N. Noyce
President

Arthur Rock
Chairman of the Board

Postscript from the Chairman

I am proud and delighted that Intel has been able to develop the breadth and strength of management that the proposed changes in top management imply. These changes do not mean that any of us will be working less but, rather, that more of the decisions will be made by people who have shown they have the talent and energy to take over more responsibilities. Intel will be a stronger company and its capacity for growth will be increased as a result of these moves.

Revenues
(Dollars in millions)

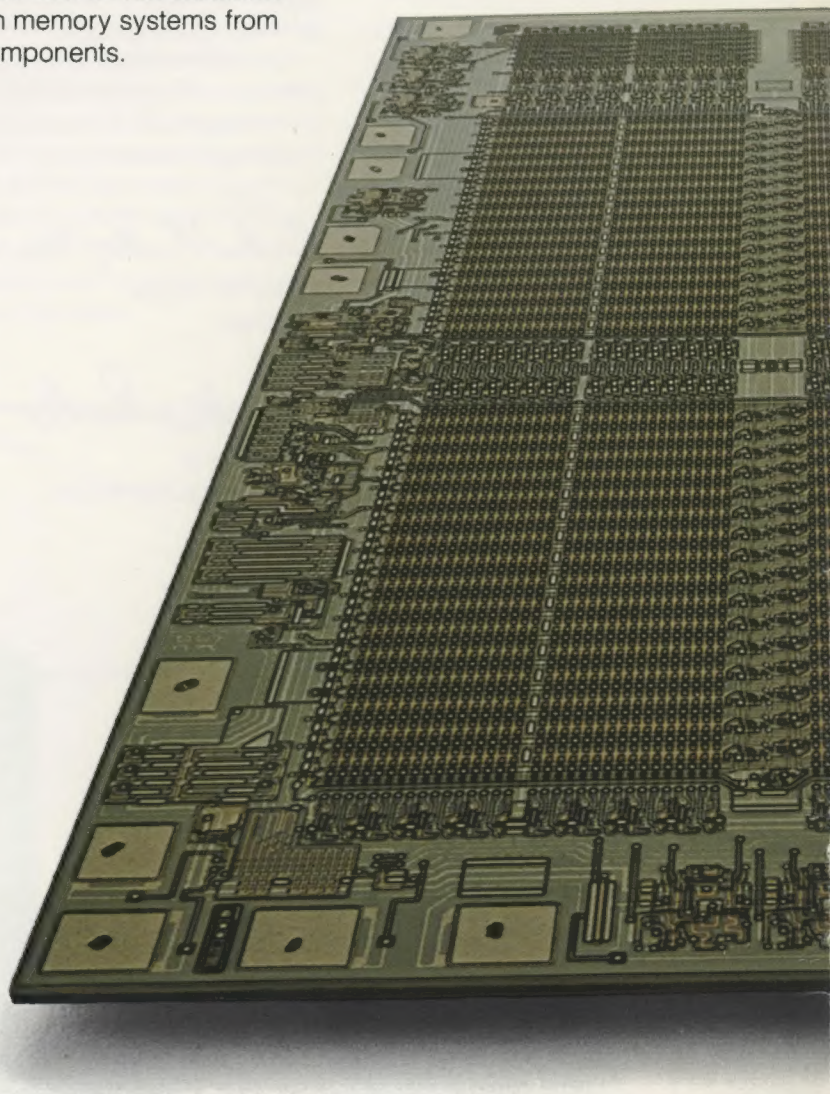


Intel was founded in 1968 to design, develop, manufacture and market products based upon integration of complex electronic functions on a small chip of semiconductor material. Such functional components, which may contain several thousand transistors, resistors, diodes and capacitors, are commonly referred to in the industry as "LSI" components, for Large-Scale Integration. Intel has pioneered in the technology of LSI components and has set the direction of important product developments.

The first application we pursued was semiconductor memories. Here the LSI component is used to store digital information, ones or zeros, for later processing or calculation by computers or other data processing systems. A single LSI component typically stores from 256 to 16,000 individual binary digits, or "bits" of information. We have developed a variety of different types of semiconductor memory components for several applications and are now the leading independent supplier of semiconductor memory components.

To provide new markets for semiconductor memories we established a Memory Systems Division which designs, manufactures, and markets products ranging from small printed circuit boards containing a dozen LSI components to complete computer memories containing millions of bits together with all associated power supplies, logic circuits and diagnostic testing features. This division serves those customers who do not assemble their own memory systems from these components.

Another Intel LSI component that leads the industry is the microprocessor—a complete logic system for a small computer contained on a single LSI circuit. This represents a major new direction in electronic "componentry" that will make electronics available for many new applications not previously economical. The development of the microprocessor has been compared in importance to the original development of the integrated circuit. Though the field is still in its infancy, it is evolving rapidly. In the few years since we introduced the

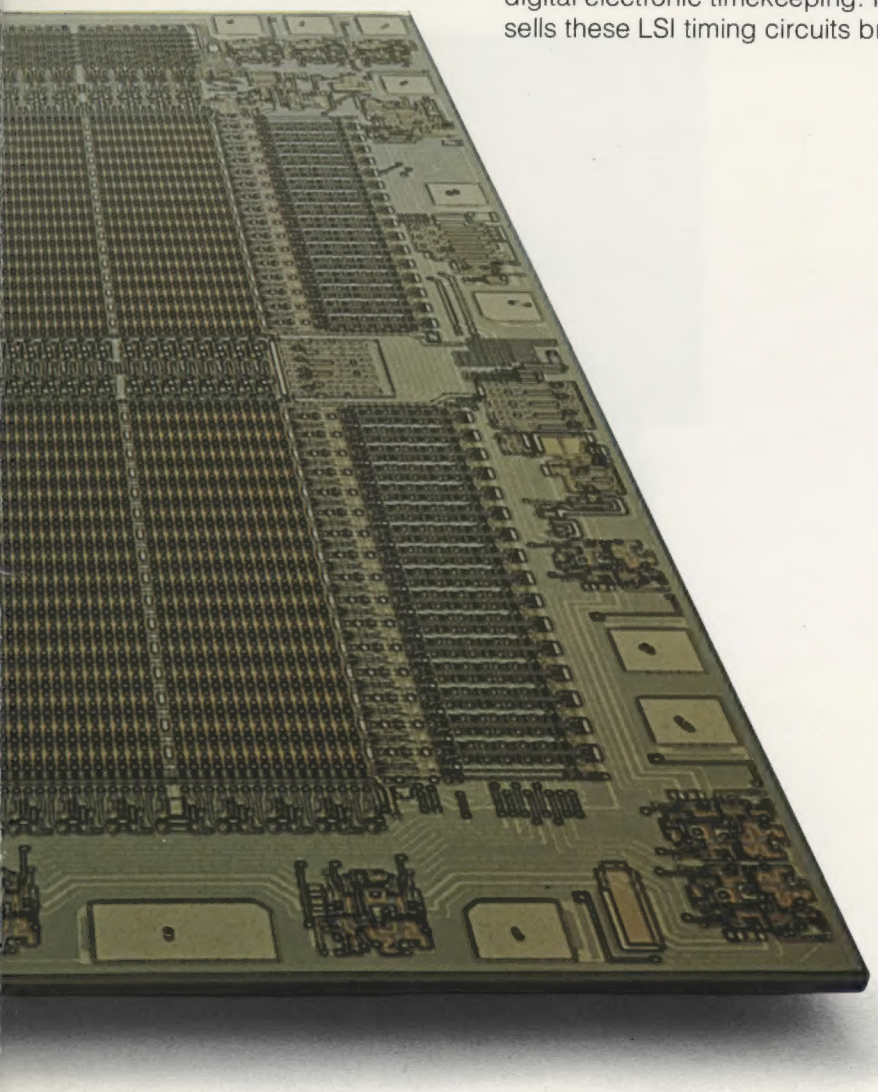


The Intel® 2107B is a new 4K RAM that combines speed with small die size and low manufacturing cost.

first microprocessor, we have rapidly expanded our support capability and marketing efforts in order to educate as many users as possible to the advantages of these exciting products. This often requires educating the user about a new approach to systems design, which is a broad educational task. Not only must we supply the components, but we must supply extensive software programs and design aids to help the customer use our products. Among our design aids are prototyping systems designated "Intellecs"®—themselves using microcomputers—that allow the customer to implement a system function for his product development without the need of the supporting circuitry around the microcomputer. By utilizing this convenient design system, the customer's product design cycle can be greatly shortened, an important advantage of the microprocessor concept.

A third important application of Intel LSI components is watches and clocks ("timing circuits"). Here again, the integration of complex electronic functions makes possible digital electronic timekeeping. Intel sells these LSI timing circuits broadly, but in addition, through Microma, incorporates them into complete digital watch modules sold to companies that install them in cases and market the watches under their own brand names. Microma also markets a line of such watches on a worldwide basis under its own "Microma®" brand.

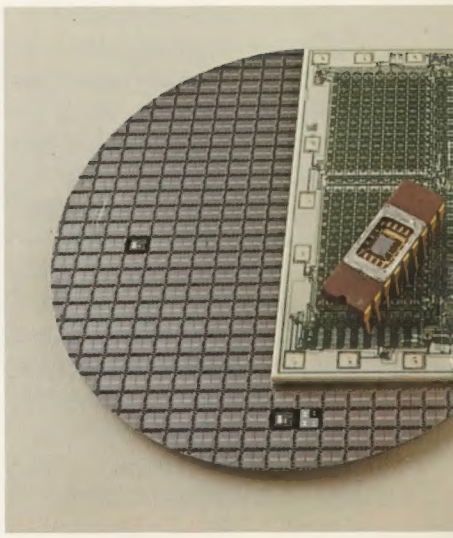
All of these markets offer large volume potential for LSI circuits—a necessity to assure that these circuits can be manufactured at low cost. These markets began to emerge just as Intel committed to pursue them. In each case, large volume applications for LSI exist that were previously being served by alternative, non-LSI technologies—magnetic cores, small and medium scale logic circuits, and wheels and gears. The opportunity now exists for us to replace the older established technology. Intel looks for markets with such potential in choosing its new products.



Memory Components

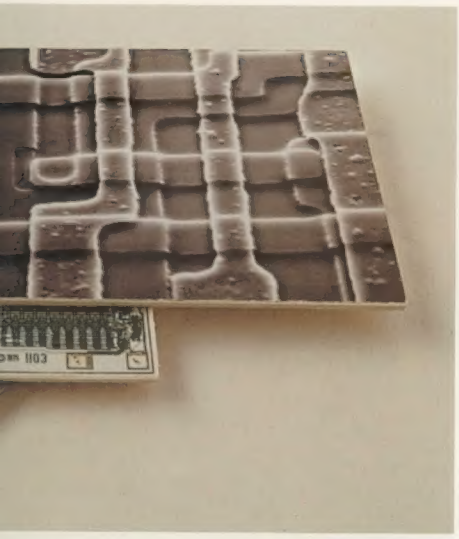
Memory circuits remained the largest single market for LSI components, as Intel continued to dominate both in dynamic random access memories for large systems and in static RAMs for smaller systems where ease of use and minimum peripheral circuitry are prerequisites.

Our most important memory product to date has been the Intel® 1103, a 1024-bit dynamic memory circuit designed for large memory systems and introduced in 1971. This circuit has received broad acceptance among main-frame computer manufacturers because of the favorable performance-cost tradeoff it offered, and because it was available in quantity. It has exerted an important influence on the direction of low cost, high speed memories toward "dynamic" storage, that is, storage that must be refreshed by special memory cycles to preserve the information. Because of the extra system circuitry required to complete a system with dynamic storage, it is more important in relatively large systems.



At Intel, an idea for a new product might come from the marketing people as a result of customer requirements or as an idea from an individual engineer who has recognized a new product possibility. In any case, such ideas are reviewed thoroughly by a management team for technical feasibility, market importance, schedule and costs. When the new product passes this examination and rises sufficiently high in priority, development begins.

If the product requires a new LSI component design, extensive computer simulation is undertaken in Intel's engineering computer center to assure that the design will match the process and will satisfy the planned application. Computer-aided design is mandatory to assure optimum performance and to minimize errors.



Pictured above is a complete 3" wafer, a photomicrograph of a single integrated circuit chip, one of the memory cells from such a chip and a chip assembled in a typical ceramic package. After capping, the package needs only to be tested before delivery to one of Intel's customers.

This particular integrated circuit, the Intel® 1103, is a random access memory containing 1024 memory cells and associated circuitry. Each cell includes three transistors so the entire chip contains several thousand transistors.

During the year, Intel and others in the industry made the first production shipments of n-channel 4096-bit dynamic RAMs, a product family that has received much attention. It is generally conceded that these "4K RAMs" will be the basic storage element for the next generation of large computer memories. Intel supplies two versions of 4K RAMs. The 2107A, a successor to the original 4K, the Intel® 2107, announced in January, was designed for lower speed applications; the 2107B, announced in December, is a new design that combines speed with small die size and low manufacturing cost. In December, we also announced that our 4K RAM family would be extended to offer both 16 and 22-pin versions, which are preferred in different applications. Our ability to supply both is important for participation in all segments of the 4K RAM market, where we plan to be a major factor.

For small systems, static memory circuits are more cost effective. Since static RAMs require no special peripheral circuitry and can be made to operate with a single power supply, they are a more economical solution for small systems even if the memory parts themselves are more complex and, hence, more expensive.

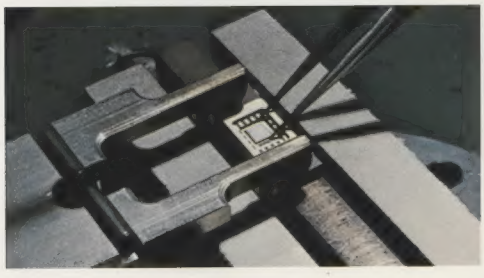
The design is transferred to a geometric layout of components and interconnections through a synergistic interaction between computer and designer. The layout in turn is separated into its several layers, typically six to eight. Each of these patterns is reduced in size photographically to the final dimensions of the circuit and repeatedly exposed in an array to fabricate a "mask." The mask is used to cover a silicon wafer with a set of identical patterns, each corresponding to one LSI component.

The set of photomasks is then employed in the wafer processing where the complex electronic circuitry is constructed layer-on-layer by depositing and patterning impurities, and insulating and metallic films.

MOS static RAMs (our 2102 family) have been important products for Intel. Their ease of use has made them especially attractive in a wide variety of terminals, calculators, controllers, accounting machines and other applications requiring small amounts of memory. During the last half of 1974, we extended our family of MOS static RAMs to include high-speed versions and types with different organizations (256 x 4 in addition to the conventional 1024 x 1). This product family will continue to be important, and though its market is becoming very competitive, we expect to retain a dominant share.

In addition to the cost-oriented 4K's and easy-to-use static RAMs, Intel has utilized its leadership in n-channel, silicon-gate MOS technology to build high-speed semiconductor memory components.

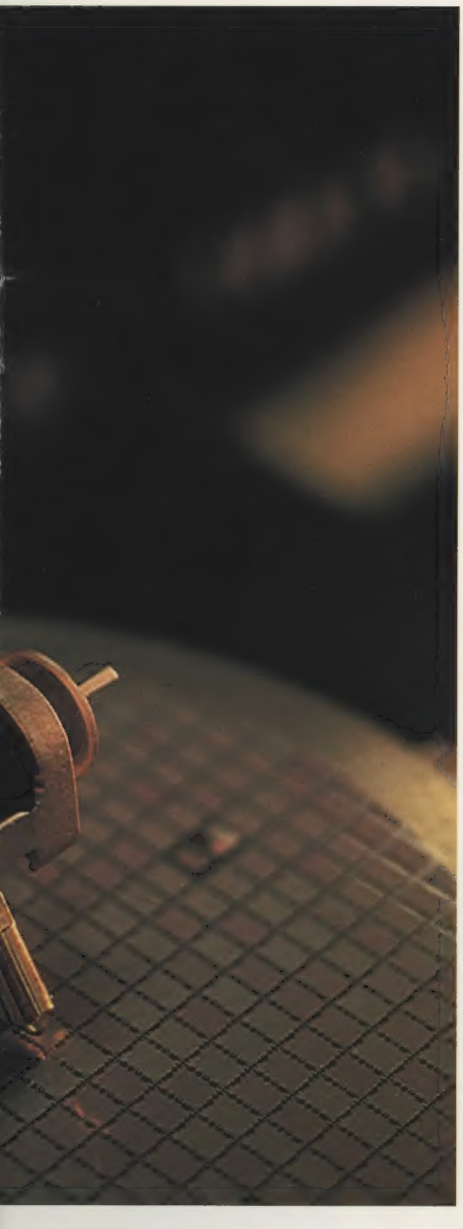
Our 2105 1K RAM, for example, allows the construction of large, fast memory systems. It is extremely important to the Memory Systems Division, for it is the basis of their plug-compatible add-on memories for IBM model 370-135 and -145 computers.



Individual circuits on these wafers are tested by probing and exercising them with a high speed, computer-controlled test system that may conduct a million or more tests in a few seconds. The faulty units are marked for discard when the individual circuits are cut apart.

Separating the individual circuits is efficiently accomplished at the plant location where they will be assembled into packages. Typically, this involves scribing with a diamond tool and fracturing, much as a sheet of glass is cut.

Intel performs most of its assembly at its plants in Penang, Malaysia and Manila, Republic of the Philippines because this portion of the manufacturing operation is labor intensive. Since the parts are so small, they can easily be transported wherever appropriate labor is available. For many years the semiconductor industry has done much of its assembly in Southeast Asia.



A combination of n-channel and p-channel devices in the same circuit called complementary MOS (CMOS), offers extremely low standby power dissipation and relatively high-speed operation. This technology is ideal for battery operated systems, portable equipment, or systems requiring battery back-up in case of power failures. It is already in use at Intel for the fabrication of digital watch circuits. In January 1975, Intel will announce the first production 1024-bit CMOS RAM. This is an exciting addition to our product line and promises to open new markets.

Several types of memory components were introduced during 1974. A significant newcomer is the Intel® 3604, a 4096-bit bipolar programmable read-only memory (PROM). It is the most complex member of our PROM family utilizing poly-silicon fuses, an Intel invention, with our Schottky bipolar process.

These new products and others still in development should allow Intel to retain its position as the leader in semiconductor memory components.

The packaged circuits are returned from Asia to our Santa Clara plant for testing. Here, in rooms with critical temperature control, more extensive electrical tests are performed to assure not only that each circuit performs the desired functions, but that all the electrical parameters are met. At this time, as well as throughout the process, many quality checks are completed and regular samples are taken for extended reliability testing.

Microcomputers

Microcomputers remain most exciting LSI components. They are continuing to find new applications in many different fields, extending the entire range of electronic applications.

For example, an Intel microcomputer is being used to monitor the physical stresses in a loaded super-tanker. This smallest of computers assures that the largest of tankers can travel at a maximum safe speed under all ocean conditions.

In another application, the Dioptron®, manufactured by Coherent Radiation Corporation, is a system also based on Intel's first microprocessor which performs a complete eye refraction in 35 seconds, automatically calculating and printing out any required eyeglass prescription. This capability relieves the opthalmologist of the routine refraction tasks and allows mass clinical eye examinations at greatly reduced costs.

During 1974, Intel introduced several important extensions to its microcomputer line. The available performance was increased 100 to 1000-fold over previous units while the cost of a minimum system was pushed down to the $30 range.

The first "second generation" microprocessor, the heart of a microcomputer system, was formally introduced in April, although it had been extensively sampled previously. This 8-bit processor, Intel's® 8080, has subsequently been adopted broadly by companies of all sizes as the basis of major product lines. We are continuing to add additional products to the 8080 family, extending the range of memories, input-output devices and other peripheral functions available to the user. The 8080 will be a growing and important product to Intel for many years.

In August, we announced a microprocessor set utilizing bipolar technology for high speed performance. This family of circuit functions extends the computational speed well into the range of minicomputer performance, making them appropriate for a variety of controller applications for machine tools, computer peripherals and processes.

In December, we added a new generation processor to our simplest microcomputer set to make it more powerful and easier to use, while still retaining its low cost features.

While it is easiest to identify product advances by referring to the microprocessor, the microprocessor itself is but a small portion of the microcomputer products family. The memories, RAMs, ROMs and PROMs, and the interface functions that make the family usable account for more circuit packages and engineering development than the processor itself. In addition, the job of developing the software programs required to use the microcomputer often significantly exceeds the hardware design and development job. Furthermore, many users of microcomputers do not have the required background in computer utilization. Many are experienced hardware designers, but are not accustomed to preparing computer programs to solve their systems problems. This has required Intel to conduct extensive educational programs in microcomputer utilization. Over 5,000 engineers and managers attended seminars and training programs conducted under our sponsorship in 1974. In addition, extensive customer assistance was provided by our field staff and technical support people. Still, it is difficult to stay abreast of the inexhaustible demand for information and assistance. We are continuing to increase our capability to respond in order to speed the incorporation of our microcomputers wherever they can be employed.

The customers for Intel components constitute a broad cross-section of the electronics industry. Our field sales offices throughout the world, as well as the independent representatives who also handle Intel's product line, continuously find new customers and develop new applications for our products.

This is particularly true for microcomputer components. These circuits are finding applications in a variety of fields, many of which have never previously used electronics. To support and encourage the use of these new tiny computer systems, Intel has established the Microcomputer Systems Group. In addition to conventional marketing support, this Group is responsible for developing both software and hardware design aids to simplify the customer's task of designing Intel microcomputers into his equipment.

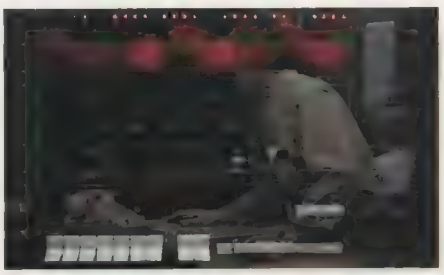
Memory Systems

The Memory Systems Divison serves markets that are either unavailable to Intel at the components level or where the customer prefers to give a contractor responsibility for design and manufacture of the memory system. In the latter category are a variety of systems for original equipment manufacturers; in the former are add-on memories for IBM computers or replacements for magnetic core systems.

A major portion of the Division's business in 1974 was in supplying memories to a large computer manufacturer for several equipment programs. This supplemented the manufacturer's in-house capability, allowing him to switch more rapidly from other technologies to realize the advantages of semiconductor memories across his product line. This relationship is continuing and being extended to additional products.

The major new product area was add-on memories for IBM 370-135 and 370-145 computers. These systems require the superior performance of semiconductor memories, so the market is not available to core-memory suppliers. During the year, several successful installations were made on each type of machine in various configurations. Among the advantages Intel's systems offer is capacity extending beyond that supplied by IBM. Based on industry experience during the previous business slow-down in the computer industry in 1970-1971, the add-on market is expected to remain strong even if sales of new computers slow. This counter-cyclical aspect of the add-on memory business should help assure Intel's stability during the present uncertain economic period. We will be expanding this activity to include other IBM computer systems.

The Memory Systems Division moved into its new facilities in Sunnyvale, California, in April 1974, allowing consolidation of all activities in a single building.



Intel's Memory Systems Division is a fairly typical customer for the company's components. Located in Sunnyvale, California, Memory Systems designs, manufactures and markets complete memory systems. Its customers include original equipment manufacturers as well as computer leasing firms who attach the memory systems to installed computers.

Many Intel memory components are assembled on a printed circuit board with other circuitry. Often these boards are combined to make large memory systems capable of storing many million individual bits of information. By offering complete memory systems, Intel can serve portions of the market not otherwise available to us.

Timing Products

Intel's first timing circuits were introduced in late 1973 during an industry-wide shortage. As a result, we rapidly became a major supplier of complementary metal-oxide-semiconductor (CMOS) watch circuits for digital watches with liquid crystal displays (LCDs). Our commitment to this product area coincided with the acquisition of Microma, Inc. in 1972. It reflects a conviction that timing products offer a significant growth market for electronic technology.

During 1974, our family of circuits for LCD watches was expanded to include other features such as the display of seconds and date. These were utilized by many watch module manufacturers as well as by Microma. We will continue to expand this line of products, incorporating additional capability into the circuits.

Microma's year was disappointing. Our largest customer for LCD watch modules was able to use only a small fraction of its anticipated requirements. Thus production capacity was under-utilized much of the time. A major marketing effort to broaden the customer base for modules was undertaken about mid-year. While this has resulted in significant orders, delivery can only begin when the customers have supplies of the watch cases of proper dimensions, which requires several months. However, we feel these orders will be a strong base for 1975 business.

Microma® brand watch distribution was expanded by selecting quality jewelry distributors in several regions of the U.S. and in Europe to handle the line. We intend to maintain the Microma® brand as a quality line sold primarily through better jewelry and department stores.

Extensive changes at Microma have strengthened the management team. Richard D. Boucher, recently of Electronic Arrays, joined in July as President. Founder Robert Robson assumed the role of Chairman of the Microma Board. Irving Cooper, formerly with Litronix, was named Vice President, Marketing, and in early December Keith L. Thompson and Desmond J. Fitzgerald were transferred from managerial positions in Intel's semiconductor components area to assume responsibility, respectively, for manufacturing and for engineering and quality assurance. Both will be nominated as vice presidents of Microma at the next Microma Board meeting.

Microma too is a customer for Intel components. It accepts them as unpackaged semiconductor chips which it assembles as an integral part of watch modules. Because of the small space available, it is inefficient to use an intermediate package.

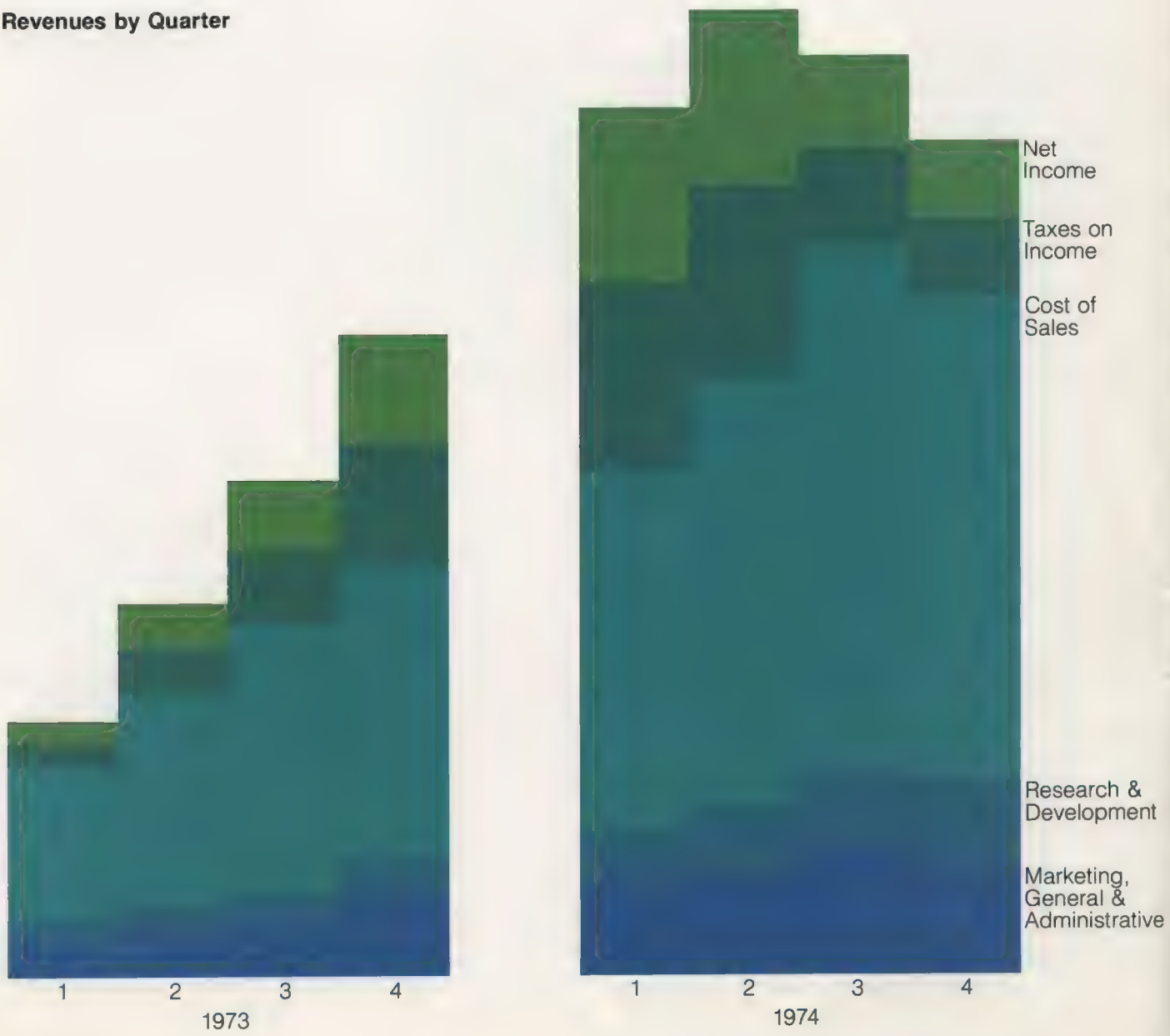
A Microma module combines the chip with a quartz crystal time standard and a Microma-manufactured liquid crystal display. These are sold in module form to various watch companies or are cased by Microma for others or for its own line of quality Microma® brand solid-state watches.

Intel Corporation
Consolidated Statement of Income
Years ended December 31, 1974 and 1973

	1974	1973
	(Thousands—Except Per Share Amounts)	
Net revenues	**$134,456**	**$66,170**
Costs and expenses (Note 1):		
Cost of sales	67,909	35,109
Research and development	10,500	4,565
Marketing, general and administrative	15,369	7,347
	93,778	**47,021**
Income before taxes on income	**40,678**	**19,149**
Taxes on income (Note 2)	20,902	9,935
Net income	**$ 19,776**	**$ 9,214**
Earnings per capital and capital equivalent share (Note 1)	**$ 2.96**	**$ 1.41**

See accompanying notes.

Revenues by Quarter



Intel Corporation
Consolidated Balance Sheet
December 31, 1974 and 1973

Assets	1974	1973
	(Thousands)	
Current assets:		
Cash	$ 1,824	$ 2,246
Certificates of deposit	9,400	4,000
Accounts receivable, less allowance for doubtful accounts of $1,228,000 in 1974 ($762,000 in 1973)	22,338	17,445
Inventories (Note 1):		
Materials	6,354	3,918
Work-in-process	7,402	5,277
Finished goods	2,085	1,195
	15,841	10,390
Prepaid taxes on income (Note 2)	3,143	2,996
Other assets	678	475
Total current assets	**53,224**	**37,552**
Property, plant and equipment:		
Land and land improvements	2,059	1,349
Buildings and leasehold improvements	8,987	5,093
Machinery and equipment	15,656	6,419
Construction in progress	1,062	2,156
	27,764	15,017
Less accumulated depreciation and amortization	5,578	2,002
Net property, plant and equipment	22,186	13,015
	$75,410	**$50,567**

Liabilities and Shareholders' Equity	1974	1973
	(Thousands)	
Current liabilities:		
Accounts payable	$ 3,206	$ 4,764
Deferred income on shipments to distributors (Note 1)	3,152	2,711
Accrued liabilities (Note 1)	6,273	3,146
Taxes payable based on income (Note 2)	7,960	10,165
Total current liabilities	**20,591**	**20,786**
Deferred taxes on income (Note 2)	4,020	1,893
Commitments (Note 4)		
Shareholders' equity (Notes 1 and 3):		
Capital stock, without par value, 20,000,000 shares authorized; shares issued and outstanding: 6,335,000 at December 31, 1974 and 6,206,000 at December 31, 1973; at stated value	21,189	18,054
Retained earnings	29,610	9,834
Total shareholders' equity	**50,799**	**27,888**
	$75,410	**$50,567**

See accompanying notes.

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	(Thousands)	
Current liabilities:		
Accounts payable	$ 3,206	$ 4,764
Deferred income on shipments to distributors (Note 1)	3,152	2,711
Accrued liabilities (Note 1)	6,273	3,146
Taxes payable based on income (Note 2)	7,960	10,165
Total current liabilities	**20,591**	**20,786**
Deferred taxes on income (Note 2)	4,020	1,893
Commitments (Note 4)		
Shareholders' equity (Notes 1 and 3):		
Capital stock, without par value, 20,000,000 shares authorized; shares issued and outstanding: 6,335,000 at December 31, 1974 and 6,206,000 at December 31, 1973; at stated value	21,189	18,054
Retained earnings	29,610	9,834
Total shareholders' equity	**50,799**	**27,888**
	$75,410	**$50,567**

See accompanying notes.

Intel Corporation
Consolidated Statement of Shareholders' Equity
Years ended December 31, 1974 and 1973

	Capital Stock			
	Number of Shares	Amount	Retained Earnings	Total
	(Thousands)			
Balance at January 1, 1973 (Note 1)	**6,086**	**$16,776**	**$ 620**	**$17,396**
Sales of shares through employee stock participation plan and upon exercise of employee stock options (Note 3)	120	1,278	—	1,278
Net income	—	—	9,214	9,214
Balance at December 31, 1973	**6,206**	**18,054**	**9,834**	**27,888**
Sales of shares through employee stock participation plan and upon exercise of employee stock options (Note 3)	129	3,135	—	3,135
Net income	—	—	19,776	19,776
Balance at December 31, 1974	**6,335**	**$21,189**	**$29,610**	**$50,799**

See accompanying notes.

Intel Corporation
Consolidated Statement of Changes in Financial Position
Years ended December 31, 1974 and 1973

	1974	1973
	(Thousands)	
Working capital provided by net income from operations, including charges to income not involving the current use of working capital of $3,612,000 in 1974 for depreciation ($1,474,000 in 1973) and $2,127,000 in 1974 for deferred taxes on income ($1,764,000 in 1973)	$25,515	$12,452
Working capital provided by sales of shares through the employee stock participation plan and upon exercise of employee stock options	3,135	1,278
Working capital used for additions to property, plant and equipment	(12,783)	(9,113)
Increase in working capital (Note 5)	**$15,867**	**$ 4,617**

See accompanying notes.

1 Accounting policies

Basis of presentation The consolidated financial statements include the accounts of Intel and all of Intel's subsidiaries after elimination of intercompany transactions. Significant combined financial information as to Intel's foreign operations is as follows:

	1974	1973
	(Thousands)	
Current assets	$4,116	$2,583
Current liabilities	570	233
Net property, plant and equipment	3,120	1,361

Recapitalization In April 1974, Intel increased its authorized shares from 10,000,000 to 20,000,000 and declared a three-for-two stock split. All capital share numbers and earnings per capital and capital equivalent share for 1973 have been restated to reflect the stock split.

Deferred income on shipments to distributors Certain of Intel's sales are made to distributors under agreements allowing right of return and price protection on merchandise unsold by the distributors. Because of the rapid technological obsolescence in the industry, Intel defers recognition of such sales until the merchandise is sold by the distributors.

Warranty Intel provides currently an amount which, in the opinion of management, is sufficient to cover the estimated cost to repair or replace product expected to be returned under the various warranty provisions in effect.

Royalties Intel has entered into various cross-licensing agreements. In addition, Intel expects, from time to time, to utilize products and processes of others and may be required to obtain additional licenses and pay royalties for such utilization. Accordingly, Intel provides currently a reserve (based upon a percentage of sales) which, in the opinion of management, is sufficient to cover Intel's liability under all such possible cross-license agreements.

Research and development expenditures Research and development costs and preoperating expenses of new operations are charged to income as incurred.

Inventories Inventories are stated at the lower of cost or market. Cost is computed on a currently adjusted standard basis (which approximates average cost) for work-in-process and finished goods and on a first-in, first-out basis for materials. Market is based upon estimated realizable value reduced by normal gross margin.

Property, plant and equipment Property, plant and equipment are stated at cost. Depreciation is calculated principally by use of the straight-line method over the estimated useful lives of the assets for financial reporting purposes (accelerated methods for tax purposes).

Foreign currency translation Current assets and current liabilities are translated at the exchange rate in effect at the close of the period. Property, plant and equipment are translated at the exchange rates in effect at the dates these assets were acquired. Revenue and expense accounts are translated at a weighted average of exchange rates which were in effect during the year except for depreciation which is translated at the rates of exchange in effect when the respective assets were acquired. Exchange adjustments to date have not been material.

Earnings per capital and capital equivalent share Earnings per share are computed using the weighted average number of capital and capital equivalent shares outstanding after giving retroactive effect to the three-for-two stock split in 1974. Capital equivalent shares consist of shares issuable under employee stock option plans (Note 3) computed on the treasury-stock method.

2 Taxes on income

The provision for taxes on income is made up of the following components:

	1974	1973
	(Thousands)	
Federal:		
Current	$16,364	$ 9,240
Investment tax credit on flow-through method	(571)	(300)
	15,793	8,940
Deferred (Prepaid)	2,009	(480)
	17,802	8,460
State:		
Current	3,250	1,750
Deferred (Prepaid)	(150)	(275)
	3,100	1,475
	$20,902	**$ 9,935**

Deferred and prepaid taxes on income result from timing differences in the recognition of certain revenue and expense items for tax and financial reporting purposes. Timing differences relate primarily to depreciation, franchise tax accrual, deferred income on shipments to distributors, estimated warranty and undistributed income of Domestic International Sales Corporations.

Taxes payable based on income were reduced by $1,520,000 in 1974 ($270,000 in 1973) as a result of tax deductions arising out of the exercise of non-qualified stock options and disqualifying dispositions of stock acquired under the Company's qualified plans.

3 Employee Stock Option and Stock Participation Plans

Employee Stock Option Plans

Under Intel's Qualified and Non-Qualified Stock Option Plans, officers and key employees may be granted options to purchase shares of Intel's authorized but unissued capital stock at no less than 85% of the fair market value at date of grant under the Non-Qualified Plan (100% under the Qualified Plan). Generally, options become exercisable at the rate of 25% per year commencing one to two years from the date of grant. Options for 1,818,750 shares may be granted under the plans as amended. The Qualified Stock Options expire five years from the date of grant. The Non-Qualified Stock Options expire ten years from the date of grant. No charge has been made to income in accounting for options. Proceeds and income tax benefits realized by Intel as a result of transactions in these plans have been credited to capital stock (Note 2).

Additional information with respect to employee stock option plans is as follows:

		Outstanding Options		
	Options Available for Grant	Number	Aggregate Value	Price Per Share
	(Thousands—Except Per Share Amount)			
Balance at January 1, 1973	730	498	$ 4,116	$ 1.27-$20.00
Options granted	(275)	275	6,420	$18.22-$35.33
Options exercised	—	(91)	(524)	$ 1.27-$16.88
Options cancelled	51	(51)	(715)	$ 2.22-$20.83
Balance at December 31, 1973	506	631	9,297	$ 1.27-$35.33
Additional shares reserved for granting under the Non-Qualified Plan	300			
Options granted (a)	(855)	855	20,475	$15.50-$57.33
Options exercised	—	(116)	(1,143)	$ 1.27-$22.66
Options cancelled (a)	600	(605)	(18,022)	$ 2.04-$57.33
Balance at December 31, 1974	551	765	$10,607	$ 2.04-$26.25
Options exercisable at December 31:				
1974		119	$ 1,194	$ 6.22-$20.67
1973		74	$ 548	$ 1.27-$20.00

(a) During September 1974 the market price of the Company's capital stock fell to $15.50. Approximately 200 of the Company's key employees and officers held outstanding stock options granted pursuant to the Company's Non-Qualified Stock Option Plan which were exercisable at significantly higher prices. In the opinion of management, these options became useless as a motivating factor for key employees and officers. As a result management permitted cancellation of all such outstanding options and granted new options for the same number of shares to such key employees and officers exercisable at lower prices, all in accordance with the provisions of the Plan. Such cancellations and reissuances had an immaterial effect on earnings per share. However, to the extent that the quoted price of the Company's capital stock increases above the new lower exercise price of the new options, the dilutive effect will be reflected in earnings per share calculations of future periods.

Employee Stock Participation Plan Under this plan substantially all employees are entitled to purchase shares of Intel's capital stock at 85% of the fair market value at certain specified dates. Under this plan an aggregate of 112,500 shares may be issued. Employees purchased 13,427 shares in 1974 (28,328 in 1973) for $472,000 ($484,000 in 1973).

4 Commitments

Intel has available until August 1, 1975 an unsecured line of credit with two commercial banks which permits Intel to borrow up to $20 million at the banks' prime interest rate. No money has been borrowed under these lines to date.

Intel leases a portion of its capital equipment (noncapitalized financing leases) for periods from four to eight years, which periods approximate the economic useful life of the equipment. Intel also leases certain of its manufacturing facilities under leases which expire at various dates through 1984.

Rent expense was $1,695,000 in 1974, of which $1,100,000 was applicable to noncapitalized financing leases ($1,236,000 in 1973, of which $1,027,000 were applicable to noncapitalized financing leases).

The minimum rental commitment under all non-cancellable leases with an initial or remaining term of one year or more is as follows:

	Total	Portion applicable to Noncapitalized Financing Leases
	(Thousands)	
1975	$1,311	$787
1976	1,098	614
1977	857	405
1978	572	222
1979	322	60
1980-1984	1,072	—

5 Working Capital

Changes in components of working capital were as follows:

	1974	1973
	(Thousands)	
Current assets increase (decrease):		
Cash and certificates of deposit	$ 4,978	$ (67)
Accounts receivable	4,893	10,730
Inventories	5,451	7,603
Prepaid income tax and other assets	350	2,718
	15,672	**20,984**
Current liabilities increase (decrease):		
Accounts payable	(1,558)	3,217
Deferred income on shipments to distributors	441	1,978
Accrued liabilities	3,127	2,250
Taxes payable based on income	(2,205)	8,922
	(195)	**16,367**
Increase in working capital	**$15,867**	**$ 4,617**

Report of Certified Public Accountants

The Board of Directors and Shareholders,
Intel Corporation

We have examined the accompanying consolidated balance sheet of Intel Corporation at December 31, 1974 and the related consolidated statements of income, shareholders' equity and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously made a similar examination of the financial statements for the prior year.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Intel Corporation at December 31, 1974 and 1973 and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

San Jose, California
January 13, 1975

Company's Stock

Intel stock is traded in the over the counter market and is quoted on NASDAQ and in The Wall Street Journal and other newspapers. Intel has never paid dividends and has no present plans to do so. The quarterly bid price ranges* for the years 1973 and 1974 are shown below.

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	High	Low	High	Low	High	Low	High	Low
1974**	71	47	84	58	66	16	30	18
1973	23	18	25	19	53	23	62	35

*Adjusted for three-for-two stock splits effective April 16, 1973 and April 15, 1974 and rounded to the nearest dollar.

**During 1974 numerous semiconductor manufacturers including Intel announced layoffs, declining demand for semiconductor products and reduced profit margins. Intel believes that these announcements, together with the resulting adverse recommendations by securities analysts with respect to investments in semiconductor stocks in general caused the sharp decline during the year in the market price of Intel shares (as well as those of most other semiconductor manufacturers).

Board of Directors

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Chairman; General Partner of Arthur Rock & Associates, venture capital investors

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Vice President of Operations Intel Corporation

D. James Guzy
President of Arbor Laboratories, manufacturer of electronic instruments

Richard Hodgson
Senior Vice President of International Telephone and Telegraph Corporation, manufacturer of telecommunications equipment

Sanford Kaplan
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Robert N. Noyce
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Vice President and General Manager, Memory Systems Division

Transfer Agent and Registrar

Wells Fargo Bank
San Francisco, California

Co-Transfer Agent and Co-Registrar

First National City Bank
New York, New York

Certified Public Accountants

Arthur Young & Company
San Jose, California

Corporate Headquarters

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Santa Clara, California

Manufacturing Facilities

Cupertino, California
Livermore, California
Manila, Philippines
Mountain View, California
Penang, Malaysia
Santa Clara, California
Sunnyvale, California

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IF YOU WOULD LIKE TO RECEIVE, WHEN AVAILABLE, A COPY OF THE CORPORATION'S "FORM 10-K" WHICH WILL BE FILED WITH THE SECURITIES AND EXCHANGE COMMISSION PRIOR TO MARCH 31, 1975 FOR THE 1974 YEAR, PLEASE SEND YOUR REQUEST TO:

Roger S. Borovoy, Secretary
Intel Corporation
3065 Bowers Ave.
Santa Clara, Ca. 95051.